

Message Text

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ACTION EB-07

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TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

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TO SECSTATE WASHDC 9711

C O N F I D E N T I A L PARIS 13155

PASS TREASURY AND FRB

E.O. 11652: GDS

TAGS: EFIN, FR

SUBJECT: FRENCH RETURN TO EC MONETARY "SNAKE"

REF: PARIS 11789

1. SUMMARY. DECISION TO RETURN TO THE "SNAKE" CAUGHT
FINANCE MINISTRY BY SURPRISE. SENIOR OFFICIAL TOLD
FINANCIAL ATTACHE TODAY THAT HE COULD NOT HAVE ANSWERED
EVEN MOST BASIC QUESTIONS FOUR DAYS AGO (THE DAY BEFORE
THE MEETING). FRENCH POSITION IS THAT FOURCADE'S
PROPOSITIONS AT EC FINANCE MINISTERS MEETING ARE NOT
CONDITIONS FOR RE-ENTRY AND FRANCE WILL REMAIN IN THE
SNAKE DE FACTO EVEN IF SUBSTANTIVE DISCUSSIONS MUST
CONTINUE AFTER THE NEXT FINANCE MINISTERS MEETING.
FRENCH CONSIDER THEIR SUGGESTED CHANGES IN INTERVENTION
AND THE LENGTHENING OF THE TERMS FOR SHORT-TERM
FINANCIAL ASSISTANCE AS THE MOST IMPORTANT ELEMENTS AS
IN THEIR VIEW THESE TWO PROVISIONS COULD FACILITATE A
DE FACTO COMMUNITY RATE AGAINST THE DOLLAR. FRANCE
WILL FORMALLY RE-ENTER THE "SNAKE" AFTER NEXT EC
FINANCE MINISTERS MEETING IF OTHERS CONCUR IN THESE TWO
PROPOSITIONS AND FRENCH SEEM TO ANTICIPATE CONCURRENCE.

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END SUMMARY.

2. FOURCADE POSED FOUR PROPOSITIONS AT EC FINANCE MINISTERS MEETING PLUS A NUMBER OF MORE GENERAL SUBJECTS FOR DISCUSSION. THE FOUR PROPOSITIONS WERE: (A) A JOINT DOLLAR INTERVENTION POLICY; (B) INTERVENTION IN DOLLARS PRIOR TO EXCHANGE RATES REACHING THE SNAKE LIMITS; (C) A LENGTHENING, POSSIBLY DOUBLE OR EVEN TRIPLE, THE PRESENT THREE MONTHS TERM DURING WHICH EC SHORT-TERM FINANCIAL ASSISTANCE WILL BE GRANTED PRACTICALLY AUTOMATICALLY FOR SNAKE INTERVENTION SETTLEMENTS; AND (D) SETTLEMENTS IN ANY FOREIGN EXCHANGE ASSETS, RATHER THAN THE PACKAGE SETTLEMENTS PROVIDED FOR BY THE ORIGINAL AGREEMENT.

3. FRENCH DO NOT SEEM TO EXPECT CONCURRENCE ON A JOINT DOLLAR INTERVENTION POLICY. THIS IS SOMETHING THAT "PROBABLY WILL HAVE TO BE DISCUSSED FOR SOME TIME." FRENCH BELIEVE THIS IDEA WILL BE MORE PALATABLE IF SWISS JOIN SNAKE. THE FRENCH SEEM TO EXPECT CONCURRENCE ON THE OTHER PROPOSITIONS AND SENIOR FINANCE MINISTRY OFFICIAL RESPONDED "YES, THAT'S EXACTLY CORRECT" WHEN ASKED IF THESE PROVISIONS ARE AIMED AT ESTABLISHING A DE FACTO COMMUNITY RATE AGAINST THE DOLLAR. FINANCE MINISTRY DOES NOT SEEM TO ATTACH MUCH IMPORTANCE TO OTHER QUESTIONS RAISED BY FOURCADE, SUCH AS INCREASING THE AMOUNT OF SHORT-TERM ASSISTANCE AVAILABLE OR PUTTING THE SNAKE INTO A TUNNEL WHICH COULD BE MOVED UP OR DOWN BY JOINT AGREEMENT, ETC.

4. IN DISCUSSING HYPOTHETICAL POSSIBILITIES IMPRESSION IS THAT FRENCH WOULD BE PREPARED TO INTERVENE IF FRANCE RISES BEYOND A CERTAIN LEVEL TOGETHER WITH WHICHEVER CURRENCY HAPPENS AT THAT TIME TO BE TOWARD THE BOTTOM OF THE SNAKE. IN FRENCH VIEW SUCH INTERVENTION COULD BE TAKEN EVEN, IF, FOR EXAMPLE, THE D-MARK WERE SOMEWHAT HIGHER VIS A VIS THE DOLLAR THAN THE FRANC.

5. FRENCH OBVIOUSLY KEEN TO HAVE SWITZERLAND JOIN THE SNAKE FOR OBVIOUS REASONS VIS A VIS THE D-MARK.
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HOWEVER, ACCORDING TO FINANCE MINISTRY SWISS HAVE NOT BEEN APPROACHED AS IT IS NECESSARY FOR FRANCE TO REJOIN FIRST.
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